

COUNCIL DOCKET OF

July 15, 2008☐ Supplemental ☒ Adoption ☐ Consent ☐ Unanimous Consent Rules Committee Consultant Review

R -

O -

Ballot Proposal on Pension Reform

☒ Reviewed ☐ Initiated By Rules On 6/25/08 Item No. 3a

RECOMMENDATION TO:

- To forward the pension reform ballot proposal as presented by Council President Peters and Mayor Sanders to:
- the full City Council for consideration on July 14;
 - direct the Mayor to Meet and Confer on this proposal as legally required, and in order to possibly avoid a ballot measure;
 - direct the City Attorney to prepare a draft ordinance for amending the Municipal Code in the event that a ballot measure is unnecessary; and
 - include the actuarial calculations as requested by Councilmember Frye

VOTED YEA: Madaffer, Peters, Frye, Hueso, Young

VOTED NAY: Young, regarding forwarding this item to Council for consideration as a ballot proposal

NOT PRESENT:

CITY CLERK: Please reference the following reports on the City Council Docket:

REPORT TO THE CITY COUNCIL NO.

INDEPENDENT BUDGET ANALYST NO.

COUNCIL COMMITTEE CONSULTANT ANALYSIS NO.

OTHER:

Mayor Sanders' and Council President Peters' General Members chart compromise ballot proposal; City Clerk's June 20, 2008, memorandum; Mayor Sanders' June 20, 2008, memorandum; Mayor Sanders' June 25, 2008, Pension Reform PowerPoint; Council President Scott Peters' June 20, 2008, memorandum; City Attorney's June 19, 2008, memorandum regarding Ballot Measure Questions; Proposed Ordinance dated June 24, 2008 with attached Comparison of Mayor's Ballot Proposal to Current Pension System; League of California Cities' memorandum with Defined Benefits Comparisons chart; S.D. County Taxpayers Association's June 25, 2008, PowerPoint; Joseph Esuchanko's actuarial calculations

COUNCIL COMMITTEE CONSULTANT

Elyse Lowe

000471

Sandus / Petrus final
6/25/08 3a

City of San Diego

General Members - Applicable to Employees Hired After 7/1/09

	Current Design	Compromise Ballot Proposal
Age at Hire for Illustrative Member	35	35
Defined Benefit Multiplier		
Age 65	2.80%	2.60%
Age 62	2.65%	2.24%
Age 60	2.55%	2.00%
Age 55	2.50%	N/A
Defined Benefit Cap	90%	80%
Years in Final Average Compensation	1	3
Defined Benefit Member Rate	10.07%	7.50%
Defined Benefit Death and Disability Benefits	SDCERS	Revised
Defined Contribution City Rate	6.05%	1.25%
Defined Contribution Member Rate	6.05%	1.25%
Income Replacement Ratio		
Retire at 65		
Defined Benefit	84.0%	74.5%
Defined Contribution	35.0%	9.2%
Total	119.0%	83.7%
Retire at 62		
Defined Benefit	71.6%	57.8%
Defined Contribution	28.6%	7.2%
Total	100.2%	65.0%
Retire at 60		
Defined Benefit	63.8%	47.8%
Defined Contribution	25.0%	6.2%
Total	88.8%	54.0%
Retire at 55		
Defined Benefit	50.0%	N/A
Defined Contribution	17.0%	N/A
Total	67.0%	N/A
City Contribution Rates		
Defined Benefit	9.87%	7.50%
Defined Contribution	6.05%	1.25%
Total	15.92%	8.75%
Member Contribution Rates		
Defined Benefit	10.07%	7.50%
Defined Contribution	6.05%	1.25%
Total	16.12%	8.75%
Projected Annual Long-Term Savings (millions)		
Defined Benefit City Savings	N/A	8.2
Defined Contribution City Savings	N/A	15.4
Pre-65 LTD Program	N/A	(1.1)
Total Annual City Savings	N/A	22.5

000473

**CITY OF SAN DIEGO
OFFICE OF THE CITY CLERK
MEMORANDUM
(619) 533-4000**

DATE: June 20, 2008
TO: Elyse Lowe, Rules Committee Consultant
FROM: Elizabeth Maland, City Clerk
SUBJECT: Ballot Proposals for Rules Committee Review

Attached are the 9 ballot proposals filed in my office pursuant to Council Policy 000-21 for the submission of ballot proposals to be reviewed by the Rules Committee for possible placement on the ballot.

The Clerk's Office has established a June 20, 2008 deadline for submitting such ballot proposals for the November 2008 ballot, and anticipates that the Rules Committee will review such proposals at its June 25, 2008 meeting. Ballot proposals which are referred to the full City Council after Rules Committee review will be listed under Public Notice and docketed for consideration by Council on July 7, 2008.


Elizabeth Maland
City Clerk

Attachments


000475



JERRY SANDERS
MAYOR

RECEIVED
CITY CLERK'S OFFICE
08 JUN 20 AM 10:16
SAN DIEGO, CALIF.

MEMORANDUM

DATE: June 20, 2008
TO: City Clerk Liz Maland
FROM: Mayor Jerry Sanders 
SUBJECT: Submission of Ballot Measure for the November 4, 2008 Election

Please see the attached terms for the ballot measure entitled, "New Pension Plan for Non-Safety Employees Hired On or After July 1, 2009."

RECEIVED
CLERK'S OFFICE
COMPARISON OF MAYOR'S BALLOT PROPOSAL TO CURRENT PENSION SYSTEM

000477

08 JUN 20 AM 9:43

		Current Pension Design	Mayor's Ballot Proposal
Age at Hire for Illustrative Member		35	35
Defined Benefit Multiplier			
Age 65		2.80%	2.30%
Age 62		2.65%	2.00%
Age 60		2.55%	1.64%
Age 55		2.50%	1.03%
Defined Benefit Cap		90%	75%
Years in Final Average Compensation		1	3
Defined Benefit Member Rate		10.07%	6.35%
Defined Contribution City Rate		6.05%	2.00%
Defined Contribution Member Rate		6.05%	2.00%
Income Replacement Ratio			
Retire at 65	Defined Benefit	84.0%	65.9%
	Defined Contribution	35.0%	14.8%
	Total	119.0%	80.7%
Retire at 62	Defined Benefit	71.6%	51.6%
	Defined Contribution	28.6%	11.7%
	Total	100.2%	63.3%
Retire at 60	Defined Benefit	63.8%	39.2%
	Defined Contribution	25.0%	9.9%
	Total	88.8%	49.1%
Retire at 55	Defined Benefit	50.0%	19.7%
	Defined Contribution	17.0%	6.5%
	Total	67.0%	26.2%
City Contribution Rates			
	Defined Benefit	9.87%	6.35%
	Defined Contribution	6.05%	2.00%
Total		15.92%	8.35%
Member Contribution Rates			
	Defined Benefit	10.07%	6.35%
	Defined Contribution	6.05%	2.00%
Total		16.12%	8.35%
Projected Annual Long-Term Savings (millions)			
Defined Benefit City Savings		N/A	\$12.2
Defined Contribution City Savings		N/A	\$14.1
Pre-65 LTD Program		N/A	\$(1.2)
Total Annual City Savings		N/A	\$25.1

Rules Committee June 25, 2008

Mayor Sanders Pension Reform
Ballot Proposal

000479

6/25/08 Item 34

The Need for Pension Reform

City of San Diego Funded Ratio & UAL 1998 - 2007 (in billions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Funded Ratio	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.9%
UAL	\$0.13	\$0.15	\$0.07	\$0.28	\$0.72	\$1.16	\$1.37	\$1.39	\$1.00	\$1.18*

Source: Cheiron SDCERS 2007 Valuation report

* The UAL for 2007 is calculated using EAN, prior years are calculated using PUC

Pension History

Year	Defined Benefit (at age 55)	Social Security / SPSP
July 1980	1.48%	Social Security
January 1982: SPSP created. Mandatory 3.0% ee contribution with city match; voluntary 4.5% ee contribution with city match		
July 1986: SPSP Voluntary reduced to 3.05% with 1.45% mandatory Medicare contribution.		
January 1997	2.0%	SPSP
July 2000	2.25%	SPSP
July 2002	2.5%	SPSP

COMPARISON OF MAYOR'S BALLOT PROPOSAL TO CURRENT PENSION SYSTEM

	Current Pension Design	Mayor's Ballot Proposal
Age at Hire for Illustrative Member	35	35
Defined Benefit Multiplier		
Age 65	2.80%	2.30%
Age 62	2.65%	2.00%
Age 60	2.55%	1.64%
Age 55	2.50%	1.03%
Defined Benefit Cap	90%	75%
Years in Final Average Compensation	1	3
Defined Benefit Member Rate	10.07%	6.35%
Defined Contribution City Rate	6.05%	2.00%
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Retire at 60		
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Total	88.8%	49.1%
Retire at 55		
Defined Benefit	50.0%	19.7%
Defined Contribution	17.0%	6.5%
Total	67.0%	26.2%
City Contribution Rates		
Defined Benefit	9.87%	6.35%
Defined Contribution	6.05%	2.00%
Total	15.92%	8.35%
Member Contribution Rates		
Defined Benefit	10.07%	6.35%
Defined Contribution	6.05%	2.00%
Total	16.12%	8.35%
Projected Annual Long-Term Savings (millions)		
Defined Benefit City Savings	N/A	\$12.2
Defined Contribution City Savings	N/A	\$14.1
Pre-65 LTD Program	N/A	\$(1.2)
Total Annual City Savings	N/A	\$25.1

Defined Contribution Elements

- Reduces mandatory percent of pay contributed/matched
- Mandatory contributions ensure savings
- Invests DC funds with SDCERS, providing lower investment costs and higher returns to employee
- Reduced DB and DC contributions increase take home pay by 7.7%
- Employees can participate in City's 401(k) and 457 plans if they desire greater retirement income

Ballot Proposal

- Requires adoption of an Ordinance including the proposition language and ballot language reflecting the proposed plan

Meet & Confer Process

- Office of the Mayor has met with DCAA on June 10, 17, 24
- Office of the Mayor has met with Local 127 on June 18, 24
- MEA rejected the Mayor's request to meet and confer over the proposed charter amendment. Instead, MEA invited early negotiations on a successor MOU for FY10, which would include discussions on a new pension system.
- Office of the Mayor has yet to receive counter proposal from any labor organization.
- Discussions are ongoing

000487



RULES JUN 25 2008 #3a

RECEIVED
CITY CLERK'S OFFICE

08 JUN 20 AM 10:05

SAN DIEGO, CALIF.

**COUNCIL PRESIDENT SCOTT PETERS
FIRST DISTRICT**

MEMORANDUM

DATE: June 20, 2008

TO: City Clerk Elizabeth Maland
Honorable Mayor and City Councilmembers
Honorable City Attorney Michael Aguirre

FROM: Council President Scott Peters

Elizabeth Kingly for Scott Peters

SUBJECT: Pension Reform Ballot Proposal

I am pleased to offer the attached Pension Reform measure for consideration on the November 2008 ballot.

I look forward to a discussion of this and other pension measures at the Rules Committee meeting of June 25, 2008.

Thank you.

SHP:bbk

Attachment

cc: Andrea Tevlin, IBA
Jay Goldstone, CFO
Julie Dubick, Policy Director, Office of the Mayor

City Savings Under Pension Reform Ballot Proposal
Assuming Members 75% Participation in Saving for Retirement
Effective July 1, 2009 (in millions)

000489

Savings

<u>Year</u>		<u>SPSP</u> <u>Annual</u>	<u>SPSP</u> <u>Cumulative</u>	<u>SDCERS</u> <u>Annual</u>	<u>SDCERS</u> <u>Cumulative</u>	<u>Total</u> <u>Annual</u>	<u>Total</u> <u>Cumulative</u>
1	FY 2010	\$ 0.6	\$ 0.6	\$ -	\$ -	\$ 0.6	\$ 0.6
2	FY 2011	\$ 1.3	\$ 1.9	\$ -	\$ -	\$ 1.3	\$ 1.9
3	FY 2012	\$ 2.0	\$ 3.9	\$ 0.3	\$ 0.3	\$ 2.3	\$ 4.2
4	FY 2013	\$ 2.8	\$ 6.7	\$ 0.6	\$ 0.9	\$ 3.4	\$ 7.6
5	FY 2014	\$ 3.6	\$ 10.3	\$ 0.9	\$ 1.8	\$ 4.5	\$ 12.1
6	FY 2015	\$ 4.4	\$ 14.7	\$ 1.2	\$ 3.0	\$ 5.6	\$ 17.7
7	FY 2016	\$ 5.3	\$ 20.0	\$ 1.6	\$ 4.6	\$ 6.9	\$ 24.6
8	FY 2017	\$ 6.2	\$ 26.2	\$ 2.0	\$ 6.6	\$ 8.2	\$ 32.8
9	FY 2018	\$ 7.2	\$ 33.4	\$ 2.4	\$ 9.0	\$ 9.6	\$ 42.4
10	FY 2019	\$ 8.3	\$ 41.7	\$ 2.8	\$ 11.8	\$ 11.1	\$ 53.5

RECEIVED
CITY CLERK'S OFFICE
08 JUN 20 AM 10:05
SAN DIEGO, CA

Assumptions

Number of New Hires per Year	264
FY 2009 Average Starting Salary	\$ 45,000
Annual Inflation Rate	4.25%
Interest Rate	8.00%
New SPSP Mandatory	0.00%
New SPSP Voluntary	0.00%
SPSP Voluntary Participation	75.00%
SDCERS Normal Cost Rate	7.59%
Old SDCERS Normal Cost Rate	9.87%
Year Zero Merit and Longevity	4.50%
Year One Merit and Longevity	3.50%
Year Two Merit and Longevity	2.50%
Year Three Merit and Longevity	1.50%
Year Four Merit and Longevity	0.50%
Year Five and Later Merit and Longevity	0.50%
Year Zero Turnover	5.63%
Year One Turnover	5.53%
Year Two Turnover	4.33%
Year Three Turnover	4.33%
Year Four Turnover	4.24%
Year Five Turnover	3.06%
Year Six Turnover	1.87%
Year Seven Turnover	1.98%
Year Eight Turnover	2.14%
Year Nine Turnover	2.30%

MISSION BAY PARK AND REGIONAL PARKS IMPROVEMENT FUNDS
 CHARTER AMENDMENT PROPOSED BY
 COUNCILMEMBERS
 KEVIN FAULCONER AND DONNA FRYE

000491

JUN 20 AM 9:28
SAN DIEGO, CALIF.Background:

FY 2009 Mission Bay Park (MBP) commercial lease revenues for the City will be nearly \$30 million. Under an existing City ordinance, only \$5 million of MBP revenues are dedicated to Regional Park capital projects: \$2.5 million for Mission Bay Park, and \$2.5 for other Regional Parks. What is often forgotten is that commercial leases were allowed inside MBP to help pay for the creation of the park. Once the initial bonds from 1945, 1950 and 1956 were paid off, commercial lease revenues were diverted to the City's General Fund. As a result, major capital projects have been neglected for many years.

The failure to adequately fund the Mission Bay Park public improvements has made the park less desirable for families, threatens wildlife, and has created safety hazards for boaters and sailors. Mission Bay Park requires a stable dedicated funding source to ensure San Diegans and visitors benefit from the full enjoyment of one of our most important regional recreational assets; to protect the Mission Bay ecosystem; and to increase City revenues as the park becomes a more desirable tourist destination.

Like Mission Bay Park, other Regional Parks – Balboa Park, Mission Trails Park, San Diego River Park, Otay River Valley Park, and wildlife conservation areas throughout San Diego – require a reliable funding source.

The Proposed Charter Amendment:

- The first \$20 million in MBP commercial lease revenues will remain in the General Fund.
- Additional revenues from MBP will be dedicated with 75% for Mission Bay Park and 25% for other Regional Parks and Multiple Species Conservation Program areas.
- Two committees are created to ensure funds dedicated from the MBP revenues are used solely for MBP and Regional Park capital improvements.

Effect on Mission Bay Park:

Increases dedicated lease revenues for MBP improvements from \$2.5 million to approximately \$7.5 million in FY 2010. As MBP lease revenues grow, capital improvement funds for MBP will also grow. This dedicated funding source can enable the City to finance more capital projects from annual revenues and obtain revenue bonds to finance major long-term projects. Priority projects in MBP include 80-acre marshland restoration at the Rose Creek outfall; navigation channels to improve both the Mission Bay environment and boating safety; 140 acres of new parkland; expanded picnic areas; and infrastructure for more overnight camping, fee-generating hotel rooms, and recreational attractions, primarily at existing commercial locations. Benefits include protecting all beneficial uses such as improved water quality for family enjoyment of Mission Bay; increased habitat for wildlife and better water circulation keep Mission Bay healthy; greater enjoyment of Mission Bay by boat, canoe or kayak; and enhanced future park revenue to maintain and improve Mission Bay Park.

Effect on Regional Parks and Wildlife Habitat Areas:

Lifts the \$2.5 million cap on using MBP revenues for other Regional Parks effective FY 2010. As MBP lease revenues grow, capital improvement funds for other parks grow with it.

000493

ORDINANCE NUMBER O-_____ (NEW SERIES)

DATE OF FINAL PASSAGE _____

AN ORDINANCE SUBMITTING TO THE QUALIFIED VOTERS OF THE CITY OF SAN DIEGO AT THE MUNICIPAL ELECTION CONSOLIDATED WITH THE STATEWIDE PRIMARY ELECTION TO BE HELD ON NOVEMBER 4, 2008, ONE PROPOSITION AMENDING THE CITY CHARTER BY AMENDING ARTICLE IX, BY ADDING SECTION 141.1 RELATING TO THE ESTABLISHMENT OF SEPARATE RETIREMENT SYSTEM BENEFITS FOR NON-SAFETY EMPLOYEES HIRED ON OR AFTER JULY 1, 2009.

WHEREAS, pursuant to California Constitution, article XI, section 3(b), California Elections Code section 9255(a)(2), and San Diego City Charter section 223, the City Council has authority to place Charter amendments on the ballot to be considered at a Municipal Election; and

WHEREAS, by Ordinance No. O-_____, adopted on _____, 2008, the Council of the City of San Diego is calling a Municipal Election to be consolidated with the Statewide Primary Election on November 4, 2008, for the purpose of submitting to the qualified voters of the City one or more ballot propositions; and

WHEREAS, the Mayor has recommended and the City Council has agreed to submit to the voters at the Municipal Election one proposition amending the Charter of the City of San Diego to establish separate retirement system benefits for non-safety employees hired on or after July 1, 2009 that will provide for both a defined benefit plan and a defined contribution plan; and

WHEREAS, the City Council's proposal of a charter amendment is governed by California Constitution, article XI, section 3(b), California Elections Code section

000494

Other than as contained in this section, all provisions of Article IX shall apply to the extent they do not conflict with the provisions of this section.

END OF PROPOSITION

Section 2. The proposition shall be presented and printed upon the ballot and submitted to the voters in the manner and form set out in Section 3 of this ordinance.

Section 3. On the ballot to be used at this Municipal Election, in addition to any other matters required by law, there shall be printed substantially the following:

PROPOSITION ____ . AMENDS THE CITY CHARTER TO ESTABLISH SEPARATE RETIREMENT SYSTEM BENEFITS FOR NON-SAFETY EMPLOYEES HIRED ON OR AFTER JULY 1, 2009. Shall the Charter be amended to establish separate retirement system benefits for non-safety employees hired on or after July 1, 2009 that will provide for both a defined benefit plan and a defined contribution plan?	YES	
	NO	

Section 4. An appropriate mark placed in the voting square after the word "Yes" shall be counted in favor of the adoption of this proposition. An appropriate mark placed in the voting square after the word "No" shall be counted against the adoption of the proposition.

Section 5. Passage of this proposition requires the affirmative vote of a majority of those qualified electors voting on the matter at the Municipal Election.

Section 6. The City Clerk shall cause this ordinance or a digest of this ordinance to be published once in the official newspaper following this ordinance's adoption by the City Council.

Section 7. Pursuant to San Diego Municipal Code section 27.0402, this measure will be available for public examination for no fewer than ten calendar days prior to

10/10/03 4:05 PM 812

COMPARISON OF MAYOR'S BALLOT PROPOSAL TO CURRENT PENSION SYSTEM

000495

		Current Pension Design	Mayor's Ballot Proposal
Age at Hire for Illustrative Member		35	35
Defined Benefit Multiplier			
Age 65		2.80%	2.30%
Age 62		2.65%	2.00%
Age 60		2.55%	1.64%
Age 55		2.50%	1.03%
Defined Benefit Cap		90%	75%
Years in Final Average Compensation		1	3
Defined Benefit Member Rate		10.07%	6.35%
Defined Contribution City Rate		6.05%	2.00%
Defined Contribution Member Rate		6.05%	2.00%
Income Replacement Ratio			
Retire at 65	Defined Benefit	84.0%	65.9%
	Defined Contribution	35.0%	14.8%
	Total	119.0%	80.7%
Retire at 62	Defined Benefit	71.6%	51.6%
	Defined Contribution	28.6%	11.7%
	Total	100.2%	63.3%
Retire at 60	Defined Benefit	63.8%	39.2%
	Defined Contribution	25.0%	9.9%
	Total	88.8%	49.1%
Retire at 55	Defined Benefit	50.0%	19.7%
	Defined Contribution	17.0%	6.5%
	Total	67.0%	26.2%
City Contribution Rates			
	Defined Benefit	9.87%	6.35%
	Defined Contribution	6.05%	2.00%
Total		15.92%	8.35%
Member Contribution Rates			
	Defined Benefit	10.07%	6.35%
	Defined Contribution	6.05%	2.00%
Total		16.12%	8.35%
Projected Annual Long-Term Savings (millions)			
Defined Benefit City Savings		N/A	\$12.2
Defined Contribution City Savings		N/A	\$14.1
Pre-65 LTD Program		N/A	\$(1.2)
Total Annual City Savings		N/A	\$25.1

000497



RULES JUN 25 2008 #3a

RECEIVED
CITY CLERK'S OFFICE

08 JUN 20 AM 10:05

SAN DIEGO, CALIF.

COUNCIL PRESIDENT SCOTT PETERS
FIRST DISTRICT

MEMORANDUM

DATE: June 20, 2008

TO: City Clerk Elizabeth Maland
Honorable Mayor and City Councilmembers
Honorable City Attorney Michael Aguirre

FROM: Council President Scott Peters

Elizabeth Kingsley for Scott Peters

SUBJECT: Pension Reform Ballot Proposal

I am pleased to offer the attached Pension Reform measure for consideration on the November 2008 ballot.

I look forward to a discussion of this and other pension measures at the Rules Committee meeting of June 25, 2008.

Thank you.

SHP:bbk

Attachment

cc: Andrea Tevlin, IBA
Jay Goldstone, CFO
Julie Dubick, Policy Director, Office of the Mayor

City Savings Under Pension Reform Ballot Proposal
Assuming Members 75% Participation in Saving for Retirement
Effective July 1, 2009 (in-millions)

000499

Savings

<u>Year</u>		<u>SPSP</u> <u>Annual</u>	<u>SPSP</u> <u>Cumulative</u>	<u>SDCERS</u> <u>Annual</u>	<u>SDCERS</u> <u>Cumulative</u>	<u>Total</u> <u>Annual</u>	<u>Total</u> <u>Cumulative</u>
1	FY 2010	\$ 0.6	\$ 0.6	\$ -	\$ -	\$ 0.6	\$ 0.6
2	FY 2011	\$ 1.3	\$ 1.9	\$ -	\$ -	\$ 1.3	\$ 1.9
3	FY 2012	\$ 2.0	\$ 3.9	\$ 0.3	\$ 0.3	\$ 2.3	\$ 4.2
4	FY 2013	\$ 2.8	\$ 6.7	\$ 0.6	\$ 0.9	\$ 3.4	\$ 7.6
5	FY 2014	\$ 3.6	\$ 10.3	\$ 0.9	\$ 1.8	\$ 4.5	\$ 12.1
6	FY 2015	\$ 4.4	\$ 14.7	\$ 1.2	\$ 3.0	\$ 5.6	\$ 17.7
7	FY 2016	\$ 5.3	\$ 20.0	\$ 1.6	\$ 4.6	\$ 6.9	\$ 24.6
8	FY 2017	\$ 6.2	\$ 26.2	\$ 2.0	\$ 6.6	\$ 8.2	\$ 32.8
9	FY 2018	\$ 7.2	\$ 33.4	\$ 2.4	\$ 9.0	\$ 9.6	\$ 42.4
10	FY 2019	\$ 8.3	\$ 41.7	\$ 2.8	\$ 11.8	\$ 11.1	\$ 53.5

RECEIVED
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Assumptions

Number of New Hires per Year	264
FY 2009 Average Starting Salary	\$ 45,000
Annual Inflation Rate	4.25%
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New SPSP Voluntary	0.00%
SPSP Voluntary Participation	75.00%
SDCERS Normal Cost Rate	7.59%
Old SDCERS Normal Cost Rate	9.87%
Year Zero Merit and Longevity	4.50%
Year One Merit and Longevity	3.50%
Year Two Merit and Longevity	2.50%
Year Three Merit and Longevity	1.50%
Year Four Merit and Longevity	0.50%
Year Five and Later Merit and Longevity	0.50%
Year Zero Turnover	5.63%
Year One Turnover	5.53%
Year Two Turnover	4.33%
Year Three Turnover	4.33%
Year Four Turnover	4.24%
Year Five Turnover	3.06%
Year Six Turnover	1.87%
Year Seven Turnover	1.98%
Year Eight Turnover	2.14%
Year Nine Turnover	2.30%

000501

League of California Cities
A Framework for Public Pension Reform¹

General Pension Reform Principles

The task force assigned to work on this issue for the members of the League of California Cities felt very strongly that any serious discussion of public pension reform must begin with a set of principles/goals. Until goals are defined, the task force believed it would be at least premature and perhaps self-defeating to make any recommendations on the benefit levels needed to achieve a public agency's goals. In keeping with this direction, the task force recommended and the League Board of Directors adopted the following principles to guide any benefit reform recommendations:

- The primary goal of a public pension program should be to provide a full-career employee with pension benefits that maintain the employees' standard of living in retirement.
- The proper level of public pension benefits should be set with the goal of providing a fair and adequate benefit for employees and fiscally sustainable contributions for employers and the taxpayers.
- Public pension benefits should be supported with proper actuarial work to justify pension levels. Policy-makers should reject any and all attempts to establish pension benefits that bear no relation to proper actuarial assumptions and support.
- Pension benefits should be viewed in the context of an overall compensation structure whose goal is the recruitment and retention of employees in public sector jobs. In recognition of competitive market forces, any change in the structure of retirement benefits must be evaluated in concert with other adjustments in compensation necessary to continue to attract and retain an experienced and qualified workforce.
- The reciprocity of pension benefits within the public sector should be maintained to ensure recruitment and retention of skilled public employees - particularly in light of the retirement of the post World War II "Baby Boom" generation which will result in unprecedented demands for new public sector employees.

¹ This report constitutes the recommendations of the League Pension Reform Task Force that was accepted by the League of California Cities Board of Directors for distribution as a discussion draft.

- Maintain the defined benefit plan as the central pension plan for public employees in California.
- Rollback/repeal public retirement plans that provide benefits in excess of levels required to maintain a fair, standard of living² that are not financially sustainable and are not supported by credible actuarial work. The new and exclusive benefit formulas to achieve these goals should be:
 1. **Safety Employees:** 3% @ 55 formula, offset by 50% of anticipated social security benefit for safety employees with social security coverage. Safety employees retain the current cap on retirement at 90% of final compensation.
 2. **Miscellaneous Employees(Non-safety):** 2% @ 55 formula, offset by 50% of anticipated social security benefit for miscellaneous employees with social security coverage. A cap of 100% of final compensation is placed on newly-hired, miscellaneous(non-safety) employees.
- The above formulas should incorporate a “Three-Year-Average” for “final compensation” calculation. All “Highest Final Year” compensation calculations should be repealed for newly-hired employees.
- Provide alternatives to a defined benefit plan for job classifications not intended for career public service employment.
- Give employers greater flexibility to determine when a part-time employee is entitled to public pension benefits. The current hourly threshold in PERS is too low.

Rate Volatility

Principles

- Responsible fiscal planning suggests the need to “manage” volatility in defined benefit plan contribution rates.
- Rates have historically been relatively constant and comparable to rates currently paid by most public agency employers.
- Recent rate volatility is primarily due to large fluctuations in annual investment returns for the retirement plan investment portfolios, causing significant changes in plan funding status.
- Normal Costs for defined benefit plans have remained relatively constant over time.

² This should be determined in accordance with a Cal PERS 2001 target replacement benefit study and/or the Aon Georgia State Replacement Ration Study (6th update since 1988).

000503

- Full tax-exempt disability retirement should be retained for employees who are injured and cannot work in any capacity
- Reform the disability pension provisions of public retirement systems to restrict benefits when a public employee can continue to work at the same or similar job after sustaining a work-related injury.
- Employees eligible for disability retirement should be first afforded applicable service retirement benefits, and THEN provided disability retirement benefits up to applicable "cap" on total retirement benefits.

Portability of Plan Benefits

Principles

- Reciprocity of public agency retirement benefits is critical to recruitment of qualified, experienced public sector employees.
- Limiting portability of retirement plan benefits to non-public sector employment helps in the retention of senior and management level employees.

Recommendation

- Any pension reform package should retain transferability of retirement benefits across public sector employers. No employee currently in a defined benefit plan should be required to involuntarily give up a defined benefit formula before retirement.

Tiered Plans

Principles

- Agencies should strive to avoid multi-tiered compensation structures where there are large discrepancies in benefits accruing to employees. In addition to having adverse impacts on recruitment and employee morale, multi-tiered approaches can raise issues of comparable worth and equity.

Recommendations

- Any pension reform measures should seek to minimize disparity between current and prospective public agency employees.
- Any reduction(s) or change(s) to current Defined Benefit plans should be considered in context of other compensation issues that will tend, over time, to "equate" compensation plans within and across public agency employers.

Defined Benefit Comparisons
San Diego Area

000505

Jurisdiction	Age 50	Age 55	Age 60	Age 62	Age 65	Retirement System	Benefit Cap**	Vesting	FAC Calculation
San Diego County	2.0	2.5	3.0	3.0	3.0	SDCERA	100%	5 years	highest 26 pay periods
Carlsbad	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
Oceanside*	2.0	2.7	2.7	2.7	2.7	CalPERS	none	5 years	1 year
Chula Vista	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
Escondido	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
National City	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
La Mesa	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
Coronado	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
El Cajon	2.0	2.5	3.0	3.0	3.0	CalPERS	none	5 years	1 year
MEAN	2.0	2.52	3.0	3.0	3.0				
MEDIAN	2.0	2.5	3.0	3.0	3.0				
City of San Diego	0	2.5	2.55	2.6	2.8	SDCERS	90%	10 years	1 year
Difference	-2.0	0.0	-0.5	-0.4	-0.2			5 years	
*Oceanside increasing to 2.7% on 7/12/09 (OCEA MOU) **IRS 415 (b) - cap set at \$185,000									

FILES 6/25/08 #3a

000507

6/25/2008

Evaluation of Pension Reform Proposals

June 25, 2008
Lani Lutar
San Diego County Taxpayers Association

Pension Reform Committee (PRC) Objectives (2004)

- Provide recommendations to address any unfunded liability problems of the system.
- Examine whether changes should be made to the existing pension system.
- Make any other recommendations as appropriate.

How did underfunding occur? (PRC 2004) 67.2% funded; UAAL \$1.15 Billion

Major Reasons (From 1996-2003)

■ Investment Performance	6%
■ Underfunding by City	10%
■ Use of Plan earnings for contingent benefits	12%
■ Net Actuarial losses	31%
■ Benefit improvements	41%
Total 100%	

Description of Causes for Underfunded Status (PRC 2004)

1. Investment Performance

The actual investment performance experience in fact has been 8% on average over the long-term.

2. Under-Funding by the City

The City underfunded the Plan through MP I and II. Even if the City had not entered into MP I and II, the deficit would have grown due to the amortization system selected. This was exacerbated by the drain on Plan assets from the payment of contingent benefits and retiree medical benefits.

3. Use of Plan earnings for contingent benefits

The Plan is, in fact, experiencing 8% earnings on its assets. It does not, however, retain those earnings in order to pay future retirement benefits. Instead, a significant portion is siphoned off to pay contingent benefits such as:

- 13th Check
- Corbett Settlement

PRC Recommendations

- Recommendation #10 ✓
Eliminate specific programs that permit DROP and purchase of years of service credits, except those that are federally protected.
- Recommendations #12-17
Retiree Medical Benefits, Governance, Other Issues

Evaluation of Mayor vs. Council President Proposals

Evaluation of Mayor vs. Council President Proposals

Evaluation of Mayor vs. Council President Proposals

Conclusion:

The San Diego County Taxpayers Association recommends support for Mayor Sanders' pension reform proposal.

- Mayor's plan will provide a fair and reasonable retirement benefit at age 65.
- Mayor's plan scales back benefits, achieving cost savings for taxpayers.
- Mayor's plan includes a reasonable allocation of risk between taxpayers and employees. Shared financial risk is critical to effective pension reform.

000509

	City's Current Design	Mayor's Ballot Proposal	Alternative Proposal	SD County Plan	MEA Design
Age at Hire for Illustrative Member	35	35	35	35	35
Defined Benefit Multiplier					
Age 65	2.80%	2.30%	2.750%		2.418%
Age 62	2.65%	2.00%	2.600%		2.272%
Age 60	2.55%	1.64%	2.500%	3.000%	2.000%
Age 55	2.50%	1.03%	N/A	2.500%	1.460%
Age 50				2.000%	
Defined Benefit Cap	90%	75%	80%		90%
Years in Final Average Compensation	1	3	3		3
Defined Benefit Member Rate	10.07%	6.35%	7.94%		7.14%
Defined Benefit Death and Disability Benefit	SDCERS	Revised	Revised		Revised
Defined Contribution City Rate	3.05%	2.00%	0.00%	6.2% (SSI)	1.00%
Defined Contribution Member Rate	3.05%	2.00%	0.00%	6.2% (SSI)	0.00%
DC Voluntary Employer Contribution Rate	3.00%	0.00%	0.00%		0.00%
DC Voluntary Employee Contribution Rate	3.00%	0.00%	3.00%		0.00%
Income Replacement Ratio					
Retire at 65					
Defined Benefit	84.00%	65.90%	76.43%		69.30%
Defined Contribution	35.00%	13.50%	10.13%		6.75%
Total	119.00%	79.40%	86.56%		76.05%
Retire at 62					
Defined Benefit	71.60%	51.60%	67.32%		58.60%
Defined Contribution	28.60%	10.80%	8.09%		5.39%
Total	100.20%	62.40%	75.41%		63.99%
Retire at 60					
Defined Benefit	63.80%	39.20%	59.95%		47.77%
Defined Contribution	25.00%	9.30%	6.95%		4.63%
Total	88.80%	48.50%	66.90%		52.40%
Retire at 55					
Defined Benefit	50.00%	19.70%	N/A		27.90%
Defined Contribution	17.00%	6.20%	N/A		3.12%
Total	67.00%	25.90%	N/A		31.02%
City Contribution Rates					
Defined Benefit	9.87%	6.40%	7.94%		7.14%
Defined Contribution	6.05%	2.00%	0.00%		0.00%
Pre-65 LTD Program			-0.35%		
Total	15.92%	8.40%	7.59%		7.14%
Member Contribution Rates					
Defined Benefit	10.07%	6.35%	7.94%		7.14%
Defined Contribution	6.05%	2.00%	0.00%		0.00%
Total	16.12%	8.40%	7.94%		7.14%
Projected Annual Long-Term Savings (millions)					
Defined Benefit City Savings	N/A	11.7	6.5		9.2
Defined Contribution City Savings	N/A	11.3	10.3		6.9
Voluntary DC Annual City Savings	N/A		7.9		7.9
Pre-65 LTD Program	N/A	(1.2)	(1.2)		(1.2)
Total Annual City Savings	N/A	21.8	23.5		24.0

Actuarial calculations provided by Joseph Esuchanko, Actuarial Services Company, PC

000511

Office of
The City Attorney
City of San Diego

MEMORANDUM
MS 59

(619) 236-6220

DATE: June 19, 2008
TO: The Honorable Mayor and Members of the City Council
FROM: City Attorney
SUBJECT: Pension Ballot Measure Questions

INTRODUCTION

The City Attorney has been asked to provide a legal opinion on a number of issues, all relating to placing a pension ballot measure to amend the City Charter, before the voters of San Diego.¹

QUESTIONS PRESENTED

1. Can the City Council propose a ballot measure, apart from the Mayor, to amend the City Charter provisions related to retirement pensions? If so, what, if any are the meet-and-confer requirements under the California Government Code, and how would those be fulfilled?
2. Can the Mayor, on behalf of the City, propose a ballot measure to amend the City Charter provisions related to retirement pensions? If so, what, if any are the meet-and-confer requirements under the California Government Code, and how would those be fulfilled?
3. Can the City Council waive Council Policy 300-6 regarding labor relations impasse procedures for the Mayor's proposal on behalf of the City?
4. Can the Mayor initiate or sponsor a voter petition drive to place a ballot measure to amend the City Charter provisions related to retirement pensions? If so, what, if any are the meet-and-confer requirements under the California Government Code, and how would those be fulfilled?

¹ The City Charter, Article IX: The Retirement of Employees, Sections 141 - 149 states the current pension system for the City of San Diego.

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3. Can the City Council waive Council Policy 300-6 regarding labor relations impasse procedures for the Mayor's proposal on behalf of the City?

No. The City Council can not waive Council Policy 300-6 regarding the Mayor's proposal. The Policy was created in part as an impasse procedure for resolving labor disputes.² In order to change the impasse procedure the City must meet and confer with the unions, reach agreement and ratify a new impasse procedure, or declare impasse under the current procedure and take a Council vote on whether to impose the City's last, best, and final offer regarding a change in the impasse procedure. Until these steps are concluded, the City can not change (or waive) Council Policy 300-6.

4. Can the Mayor initiate or sponsor a voter petition drive to place a ballot measure to amend the City Charter provisions related to retirement pensions? If so, what, if any are the meet-and-confer requirements under the California Government Code, and how would those be fulfilled?

The Mayor has the same rights as a citizen with respect to elections and propositions. The Mayor does not give up his constitutional rights upon becoming elected. He has the right to initiate or sponsor a voter petition drive. However, such sponsorship would legally be considered as acting with apparent governmental authority because of his position as Mayor, and his right and responsibility under the Strong Mayor Charter provisions to represent the City regarding labor issues and negotiations, including employee pensions. As the Mayor is acting with apparent authority with regard to his sponsorship of a voter petition, the City would have the same meet and confer obligations with its unions as set forth in number two, above.

5. Can a citizen residing in the City of San Diego, initiate or sponsor a voter petition drive to place a ballot measure to amend the City Charter provisions related to retirement pensions? If so, what, if any are the meet-and-confer requirements under the California Government Code, and how would those be fulfilled?

A Charter amendment proposal can be brought by citizens using the initiative process. San Diego City Charter sections 23 and 223; California Constitution Article XI, Section 3. A voter-initiated Charter amendment can not be altered by the City. Since this is voter-initiated, rather than under the imprimatur of the City, Government Code sections 3500 et seq. (Myers-Miliias-Brown-Act) is not applicable, and there is no meet-and-confer obligation with the unions.

² See expanded discussion below of question 1 regarding the inapplicability of Council Policy 300-6 to the Council's own ballot proposal.

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power to present its proposal to amend the Charter to the voters, after going through the meet-and-confer process.

The Supreme Court in *Seal Beach* emphasized the need to harmonize, whenever possible, the State Constitutional provisions guaranteeing the right of the city council to propose charter amendments to the electorate (article XI, §3, subd. (b)) with the Government Code bargaining requirements (Gov. Code §3505), when the amendment concerns terms and conditions of public employment. *Id.* at 597-602.

The *Seal Beach* Court emphasized that the meet-and-confer requirement did not prevent a city council from proposing its own charter language, only that meet-and-confer with its unions prior to placing it on the ballot was necessary to satisfy the requirements of the Government Code. *Id.* at 600.

The Court made it clear that the City Council was in no way obligated to reach agreement with the union, or change its proposed ballot language, if it found the unions' proposals unacceptable. To the contrary, the City Council could refuse an agreement if the union's terms were unacceptable, make its own decision on the language, and take that to the people, after participating in the meet-and-confer process. *Id.* at 601.

After reviewing cases where there were actual conflicts between a state statute and the city "law"; the *Seal Beach* Court returned to the situation before it:

All these cases involved actual conflicts between state statutes and city "law." No such conflict exists between a city council's power to propose charter amendments and section 3505. Although that section encourages binding agreements resulting from the parties' bargaining the governing body of the agency – here the city council—retains the ultimate power to refuse an agreement and to make its own decision. (See *Glendale City Employees' Assn., Inc. v. City of Glendale* (1985) 15 Cal.3d 328, 334-336.) This power preserves the council's rights under article XI, section 3, subdivision (b) – it may still propose a charter amendment if the meet-and confer process does not persuade it otherwise. *Id.* at 601.

C. Procedures for fulfilling the meet-and-confer obligation related to the Council's own ballot proposal.

Effective January 1, 2006, the City began operating under a Strong Mayor form of government, as reflected in San Diego Charter article XV, which provides that "[a]ll executive authority, power, and responsibilities conferred upon the City Manager in Article V, Article VII, and Article IX [are] transferred to, assumed, and [will be] carried out by the Mayor..." San Diego City Charter §260 (b).

Article XV of the Charter also expressly conferred on the Mayor a number of "additional rights, powers, and duties" to those conferred by Charter section 260(b). These rights include the right

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Government Code section 3505, in referring to the meet and confer obligation states, "The process should include adequate time for resolution of impasses *where specific procedures for such resolution are contained in local rule, regulation, or ordinance*, or when such procedures are utilized by mutual consent." [Emphasis added.]

In the absence of an impasse procedure, the process, if the City finds the unions' suggestions unacceptable, the City has met its meet and confer obligation, and can take a final vote on its language, and take that to the people.

Council Policy 300-6 is not applicable to the City Council's own ballot proposal.

Council Policy 300-6 does not contemplate or create impasse procedures when the City Council proposes its own ballot measure, based upon its unfettered Constitutional right to present such a proposal to the voters, irrespective of the Mayor's position on such a measure.

Council Policy 300-6 provides for the Mayor to present and negotiate his proposals on behalf of the City to the labor unions, to change wages, hours, or other terms or conditions of employment. The Policy contains an impasse procedure which allows the Mayor to declare when he is at impasse with the unions over his proposals, and for him to present the Mayor's last, best, and final offer on his proposal to the Council.

The Council has no authority to add new provisions to the Mayor's proposal, change provisions of the Mayor's proposal, mediate between the City and the unions, or integrate union proposals with the Mayor's last, best, and final offer.⁵

Under the Council Policy the role of the Council is limited to either ratifying an agreement reached between the Mayor and a labor organization, or at the request of the Mayor after he declares impasse, voting whether to approve and implement the Mayor's last, best, and final offer to the labor organizations.⁶

Council Policy 300-6 addresses the impasse procedure related to the Mayor's proposals to labor organizations. It does not address to the City Council's own proposals to present to the voters an amendment the City Charter, apart from the Mayor's proposals.

⁵ If the Council majority does not approve the Mayor's last, best, and final offer, as to economic provisions, the last Agreement between the City and union continues in full force and effect until a successor agreement is ratified or the Council imposes a last, best and final offer by the Mayor.

⁶ In opinions of the City Attorney since the passage of the Strong Mayor Charter provision, Policy 300-6 has been interpreted to mean that at the Impasse Hearing, the Council is only presented with the Mayor's last, best, and final offer to the labor organizations. The Council votes to implement or reject the Mayor's last, best, and final offer. The Public Employment Relations Board (PERB) has ruled and approved the impasse procedure set forth in Council Policy 300-6, as interpreted by the City Attorney, i.e. Council authority under Council Policy 300-6 is solely to adopt or reject the Mayor's last, best, and final Offer, without alteration. Deputy City Attorney's Association v. City of San Diego, PERB Case No. LA-CE-359-M (June 22, 2007). That Council Policy is not applicable to the Council's unfettered Constitutional right to present its own ballot initiative, irrespective of the Mayor's desires.

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these steps are concluded, the City can not change (waive) Council Policy 300-6 regarding the Mayor's proposal.

IV. The Mayor initiating or sponsoring a voter petition drive to place a ballot measure to amend the City Charter provisions related to retirement pensions.

The Mayor has the same rights as a citizen with respect to elections and propositions. However, those rights are restricted as noted below. While he does have the right to initiate or sponsor a voter petition drive (see Government Code section 3203), such sponsorship is legally considered as acting with apparent governmental authority, and will require the Mayor to meet-and-confer with the labor organizations over a voter initiative pension ballot measure that he sponsors. In *Inglewood Teachers Association v. Public Employment Relations Board*, 227 Cal.App.3d 767 (1991), the Court approved the Public Employment Relations Board (PERB) decision to apply a case by case approach on the basis of whether agency employees could reasonably believe that an individual had apparent authority to act on behalf of the agency.⁷

The *Inglewood Teachers Association* Court noted that under Civil Code section 2317, ostensible or apparent authority is that which "a principal, intentionally or by want or ordinary care, causes or allows a third person to believe the agent possess."

The City Charter itself under the Strong Mayor provisions, grants the Mayor the authority to represent the City regarding labor issues and labor negotiations, including employee pensions. In addition, as noted above, the Council has confirmed this authority in Council Policy 300-6, providing for the Mayor to present and negotiate his proposals on behalf of the City with the labor unions.⁸ Since the Strong Mayor Amendment was added, the City Council has repeatedly acknowledged the Mayor's authority as the City's spokesperson on labor negotiations by enforcing Council Policy 300-6. In some instances, this included his authority to negotiate on behalf of the City over his ballot proposals to amend the charter.⁹ The Mayor has ostensible or apparent authority to negotiate with the employee labor organizations over any ballot measure he sponsors or initiates, including a voter-initiative. The City, therefore, would have the same meet-and-confer obligations with its unions over a voter-initiative sponsored by the Mayor as with any City proposal implicating wages, hours, or other terms and conditions of employment.

⁷ The Court approved the PERB decision in *Inglewood Unified School District*, PERB Decision No. 792, (1990).

⁸ Council Policy 300-6 specifically provides that its reference to the authority of the "City" under the Policy includes the City Council and any duly authorized city representative. Clearly the Mayor would qualify. (Council Policy 300-6, Section IV. "Definitions" subd. (d).)

⁹ The Council has at least ten times affirmed the Mayor's authority in such matters, including: the ballot language for Propositions B and C in March 2006; the POA Impasse in April 2006; the implementing ordinances for Ballot measures B and C in December 2006; the Impasse hearings for Local 145 and DCAA in April 2007, and the Impasse hearings for Local 147, MEA, and DCAA in May 2008.

<div style="font-size: 24pt; font-weight: bold; margin-bottom: 5px;">000517</div> <div style="font-weight: bold; margin-bottom: 5px;">REQUEST FOR COUNCIL ACTION</div> <div style="font-weight: bold; margin-bottom: 5px;">CITY OF SAN DIEGO</div>		1. CERTIFICATE NUMBER (FOR AUDITOR'S USE) <div style="text-align: right; font-weight: bold; margin-top: 5px;">333 07/15</div>	
TO: CITY ATTORNEY		2. FROM (ORIGINATING DEPARTMENT): Council President Pro Tem Madaffer	
		3. DATE: 6/26/2008	
4. SUBJECT: Submitting to the voters a ballot proposition amending the City Charter to create a new Pension Plan for Future Non-Safety City Employees			
5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.) Greg Bych, x66651 MS 51B Scott Chadwick, x66313 MS56L		6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.) Betsy Kinsley, x66611 MS 10A	
7. CHECK BOX IF REPORT TO COUNCIL IS ATTACHED <input type="checkbox"/>			
8. COMPLETE FOR ACCOUNTING PURPOSES			
FUND			
DEPT.			
ORGANIZATION			
OBJECT ACCOUNT			
JOB ORDER			
C.I.P. NUMBER			
AMOUNT			
9. ADDITIONAL INFORMATION / ESTIMATED COST:			
10. ROUTING AND APPROVALS			
ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT		7/2/08
2			
3			
4	LIAISON OFFICE		
5			
6			
7			
8	DEPUTY CHIEF		
9	COO		
10	CITY ATTORNEY		
11	ORIGINATING DEPARTMENT		
		DOCKET COORD: _____ COUNCIL LIAISON: _____	
		<input checked="" type="checkbox"/> COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input checked="" type="checkbox"/> ADOPTION <input type="checkbox"/> REFER TO: _____ COUNCIL DATE: 7/15/08	
11. PREPARATION OF: <input type="checkbox"/> RESOLUTION(S) <input checked="" type="checkbox"/> ORDINANCE(S) <input type="checkbox"/> AGREEMENT(S) <input type="checkbox"/> DEED(S)			
1. Submitting to the qualified voters of the City of San Diego at the Municipal Election consolidated with the Statewide Election to be held on November 4, 2008, one proposition amending the City Charter by amending Article IX, section 141, by adding section 141.1, related to a new pension plan for future non-safety employees. 2. Directing the City Attorney to prepare a ballot title and summary. 3. Directing the City Attorney to prepare an impartial analysis. 4. Directing the Mayor's Office to prepare a fiscal analysis. 5. Assigning authorship of the ballot argument.			
11A. STAFF RECOMMENDATIONS:			
12. SPECIAL CONDITIONS:			
COUNCIL DISTRICT(S):		N/A	
COMMUNITY AREA(S):		N/A	
ENVIRONMENTAL IMPACT:		This activity is not a "project" and therefore exempt from CEQA pursuant to State CEQA guidelines Sect. 15060 (C)(3).	
HOUSING IMPACT:			
OTHER ISSUES:			



FOR IMMEDIATE RELEASE
June 25, 2008

Contact: Fred Sainz Pam Hardy
858-442-8914 619-980-8429

OFFICES OF THE MAYOR & COUNCIL PRESIDENT

SANDERS AND PETERS ANNOUNCE PENSION REFORM COMPROMISE

RULES COMMITTEE ADVANCES REFORM TO FULL CITY COUNCIL

Mayor Jerry Sanders and Council President Scott Peters this morning announced they have reached a compromise pension reform proposal. Following the meet and confer process already on-going with the affected labor organizations, the proposal will advance to the full City Council.

The new plan achieves significant cost savings, \$22.5 million when fully implemented, by significantly lowering the multipliers and eliminating the existing SP/SP system. The result is that the taxpayers' contribution to the new plan would be reduced almost by half, from 15.92% of pay to 8.75% in the future. Contributions going forward would be in conformance with the Charter by making them substantially equal. The plan also introduces a defined contribution component thereby lowering the risk to taxpayers.

An important hallmark of the compromise plan is that it reduces the costly benefits that have been a part of the current retirement system:

- Going forward, retirement pay would be based on an average of the last three out of five years of compensation – as opposed to the current highest one year of pay.
- The compromise will also disincent costly early retirements; the compromise proposal eliminates retirement at all ages below 60 years of age;
- and the proposal also lowers the defined benefit cap from 90% to 80%.

Both Mayor Sanders and Council President Peters believe that the plan achieves important and meaningful pension reform. The City Council is expected to consider the plan in July following meet and confer with the affected labor unions.

[A copy of a chart that compares the existing plan to the proposed plan follows this release.]

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City of San Diego

General Members - Applicable to Employees Hired After 7/1/09

	Current Design	Compromise Ballot Proposal
Age at Hire for Illustrative Member	35	35
Defined Benefit Multiplier		
Age 65	2.80%	2.60%
Age 62	2.65%	2.24%
Age 60	2.55%	2.00%
Age 55	2.50%	N/A
Defined Benefit Cap	90%	80%
Years in Final Average Compensation	1	3
Defined Benefit Member Rate	10.07%	7.50%
Defined Benefit Death and Disability Benefits	SDCERS	Revised
Defined Contribution City Rate	6.05%	1.25%
Defined Contribution Member Rate	6.05%	1.25%
Income Replacement Ratio		
Retire at 65		
Defined Benefit	84.0%	74.5%
Defined Contribution	35.0%	9.2%
Total	119.0%	83.7%
Retire at 62		
Defined Benefit	71.6%	57.8%
Defined Contribution	28.6%	7.2%
Total	100.2%	65.0%
Retire at 60		
Defined Benefit	63.8%	47.8%
Defined Contribution	25.0%	6.2%
Total	88.8%	54.0%
Retire at 55		
Defined Benefit	50.0%	N/A
Defined Contribution	17.0%	N/A
Total	67.0%	N/A
City Contribution Rates		
Defined Benefit	9.87%	7.50%
Defined Contribution	6.05%	1.25%
Total	15.92%	8.75%
Member Contribution Rates		
Defined Benefit	10.07%	7.50%
Defined Contribution	6.05%	1.25%
Total	16.12%	8.75%
Projected Annual Long-Term Savings (millions)		
Defined Benefit City Savings	N/A	8.2
Defined Contribution City Savings	N/A	15.4
Pre-65 LTD Program	N/A	(1.1)
Total Annual City Savings	N/A	22.5

ACTUARIAL SERVICE COMPANY, P.C.

Date: July 2, 2008

To: Penni Takade, Deputy Director, Independent Budget Analyst

Actuarial Evaluation of the Retirement Plan Compromise Proposal Put Forth by The Mayor and the City Council President

Mayor Jerry Sanders and City Council President Scott Peters have agreed on a compromise proposal setting forth the proposed design of the City's retirement system applicable to all General employees hired after June 30, 2009. The design of that system, along with replacement ratios, contribution rates and ultimate City savings have been put forth, with the actuarial calculations performed by Mercer. I have studied their results and performed parallel calculations so that I can comment on the amounts put forth. Included with this report are the results I have obtained, presented in much the same format as Mercer's, as well as a calculation of replacement ratios and a table showing estimated annual City savings for the first ten years following the effective date.

Retirement Factors

The retirement factors used in my calculations are the same as those used by Mercer. The factors incentivize later retirement, but not as greatly as would be the case if actuarial equivalent factors had been used. The current SDCERS design, for ages 60 through 65 begin at 2.55% and increase in level increments of 0.05% to 2.80% at age 65. Under the proposed design the factors begin at 2.00% and increase in level increments of 0.12% to 2.60% at age 65. Had the goal of the design been to reach a factor of 2.60% at age 65, with actuarially equivalent factors for ages 60 through 64, the early retirement factors would have been as follows:

<u>Age</u>	<u>Factor</u>
60	1.58%
61	1.75%
62	1.93%
63	2.13%
64	2.35%

As with Mercer's design, I have capped benefits at 80% of Final Average Compensation, defined as the average of the three highest consecutive years during the last five years of employment.

Replacement Ratios

At ages 60, 62 and 65, I have agreed with Mercer's calculated replacement ratios developed by the defined benefit plan. However, in all cases my results for the defined contribution plan are 91.3% to 93.5% of those arrived at by Mercer. While I cannot be certain, I believe the difference is attributable in part to the fact that I have assumed future salaries growing at the rates assumed in the SDCERS June 30, 2007 actuarial valuation. This is consistent with the cost calculations performed for the defined benefit plan. When I spoke with Bill Hallmark of Mercer some time ago he told me that Mercer used a salary growth pattern similar to SDCERS.

For the defined contribution plan I have assumed investments will grow at the rate of 8% during the employee's career, as has Mercer. In order to convert the accumulated defined contribution monies to an annual benefit, for the purpose of arriving at a replacement ratio, I have used the Uninsured Pensioner 1994 (UP1994) mortality table, set back 2 years (male and female) with a 3% load. Male spouses were assumed to be 4 years older than female spouses. The male/female rates were blended 50%/50%. Any difference in this assumption could have a significant effect on the calculated replacement ratios.

City Contribution Rates

My calculations have resulted in the same contribution rates determined by Mercer. The annual contribution rate for the defined benefit plan is 7.5% for both the City and the employee. The annual contribution rate for the defined contribution plan is 1.25% for both the City and the employee, on a mandatory basis.

Projected Annual Long-Term Savings

For comparison with Mercer, I have calculated long-term savings under three different payroll assumptions.

1. Annual payroll of \$330.8 million. This is the amount shown in the June 30, 2007 actuarial valuation. It does not consider increases between fiscal years 2007 and 2010 when the savings will first be realized. I have computed total annual savings of \$22.8 million, compared to Mercer's \$22.5 million. The amount allocated to defined benefit is slightly less than Mercer and the amount allocated to defined contribution is slightly more than Mercer.
2. Annual payroll of \$374.8 million. This is the amount shown in the June 30, 2007 actuarial valuation, increased by 4.25% annually for three years. It assumes increases between fiscal years 2007 and 2010 at the rate assumed in the June 30, 2007 actuarial valuation. I have computed total annual savings of \$25.9 million, compared to Mercer's \$22.5 million.
3. Annual payroll of \$358.7 million. This is the amount shown in the June 30, 2007 actuarial valuation, increased by 4% for fiscal year 2008, 0.0% for fiscal year 2009 and 4.25% for fiscal year 2010. It assumes increases between fiscal years 2007 and 2010 at the actual rate for fiscal year 2008, the proposed rate for fiscal year 2009 and the actuarially assumed rate for fiscal year 2010. I have computed total annual savings of \$24.8 million, compared to Mercer's \$22.5 million.

Some general comments are in order concerning my calculation of the projected long-term savings.

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1. In order to calculate the estimated defined benefit normal cost, I have used the exact formula used by the SDCERS actuary, since he will be performing the actual calculations.
2. I have calculated the normal cost as if it were payable on the first day of the fiscal year.
3. I have used the same rates of retirement as SDCERS.
4. I have assumed that all participants previously participated 100% in the SPSP voluntary plan. I have recently been informed that 88% of employees do contribute the maximum. I do not have statistics on the SPSP contribution rates for the remaining 12%. However, I assume it is not zero, and therefore increases the average rate for the group to something greater than 88%. If a calculation at less than 100%, say 90% or 95% is desired, that can easily be provided.
5. I have not done any calculation relative to the pre-65 LTD program. I have simply used the savings rates presented by Mercer.
6. In calculating the annual savings for the first ten years, I have attempted to employ those data and assumptions used in the June 30, 2007 actuarial valuation, with respect to:
 - a. Number of new hires per year
 - b. Average new hire starting salary
 - c. Annual inflation rate
 - d. Merit and longevity salary increases
 - e. Employee turnover for reasons other than death disability or retirement
 - f. Marital status at retirement
7. Defined benefit savings will not be realized until fiscal year 2012. The June 30, 2010 will be first to include new hires after June 30, 2009. The contribution calculations in that valuation will be applied to fiscal year 2012.

The other assumptions in the actuarial valuation have been ignored, e.g. rates of disability, etc.

Conclusions

1. Mercer's methods and assumptions differ on slightly from mine. My calculated projected long-term savings are only 1.33% greater than those of Mercer. There is no significant difference between Mercer and me.
2. Mercer's projected long-term savings do not recognize salary increases between fiscal year 2007 and fiscal year 2010. Recognizing those increases, increases the projected long-term savings from \$22.8 million to either \$25.9 million or \$24.8 million, depending of the salary increase assumption used. I would recommend using the \$24.8 million amount.

Actuarial Reliance

The information contained in this report was prepared for the internal use of the City of San Diego Independent Budget Analyst in connection with the Mayor's and City Council President's Compromise Proposal. It is neither intended nor necessarily suitable for other purposes. The Independent Budget Analyst may distribute this report to concerned parties, in which case the Independent Budget Analyst will provide this report in its entirety including all attachments.

Actuarial Service Company, P.C.



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City of San Diego

General Members - Applicable to Employees Hired After 7/1/09

	City's Current Design	Compromise Proposal (1)	Compromise Proposal (2)	Compromise Proposal (3)	Compromise Proposal (4)
Age at Hire for Illustrative Member	35	35	35	35	35
Defined Benefit Multiplier					
Age 65	2.80%	2.60%	2.60%	2.60%	2.60%
Age 62	2.65%	2.24%	2.24%	2.24%	2.24%
Age 60	2.55%	2.00%	2.00%	2.00%	2.00%
Age 55	2.50%	N/A	N/A	N/A	N/A
Defined Benefit Cap	90%	80%	80%	80%	80%
Years in Final Average Compensation	1	3	3	3	3
Defined Benefit Member Rate	10.07%	7.50%	7.50%	7.50%	7.50%
Defined Benefit Death and Disability Benefits	SDCERS	Revised	Revised	Revised	Revised
Mandatory Defined Contribution City Rate	3.00%	1.25%	1.25%	1.25%	1.25%
Mandatory Defined Contribution Member Rate	3.00%	1.25%	1.25%	1.25%	1.25%
Voluntary Defined Contribution City Rate	3.05%	0.00%	0.00%	0.00%	0.00%
Voluntary Defined Contribution Member Rate	3.05%	0.00%	0.00%	0.00%	0.00%
Income Replacement Ratio					
Retire at 65					
Defined Benefit	84.0%	74.5%	74.5%	74.5%	74.5%
Defined Contribution	35.0%	9.2%	8.4%	8.4%	8.4%
Total	119.0%	83.7%	82.9%	82.9%	82.9%
Retire at 62					
Defined Benefit	71.6%	57.8%	57.8%	57.8%	57.8%
Defined Contribution	28.6%	7.2%	6.7%	6.7%	6.7%
Total	100.2%	65.0%	64.5%	64.5%	64.5%
Retire at 60					
Defined Benefit	63.8%	47.8%	47.8%	47.8%	47.8%
Defined Contribution	25.0%	6.2%	5.8%	5.8%	5.8%
Total	88.8%	54.0%	53.6%	53.6%	53.6%
Retire at 55					
Defined Benefit	50.0%	N/A	N/A	N/A	N/A
Defined Contribution	17.0%	N/A	N/A	N/A	N/A
Total	67.0%	N/A	N/A	N/A	N/A
City Contribution Rates					
Defined Benefit	9.87%	7.50%	7.50%	7.50%	7.50%
Defined Contribution	6.05%	1.25%	1.25%	1.25%	1.25%
Total	15.92%	8.75%	8.75%	8.75%	8.75%
Member Contribution Rates					
Defined Benefit	10.07%	7.50%	7.50%	7.50%	7.50%
Defined Contribution	6.05%	1.25%	1.25%	1.25%	1.25%
Total	16.12%	8.75%	8.75%	8.75%	8.75%
Projected Annual Long-Term Savings (millions)					
Defined Benefit City Savings	N/A	8.2	8.0	9.1	8.7
Defined Contribution City Savings	N/A	15.4	15.9	17.9	17.2
Pre-65 LTD Program	N/A	(1.1)	(1.1)	(1.1)	(1.1)
Total Annual City Savings	N/A	22.5	22.8	25.9	24.8

(1) As presented by the Mayor

(2) Assumes annual payroll of \$330.8 million (Fiscal Year 2007, as reported in June 30, 2007 actuarial valuation)

(3) Assumes annual payroll of \$330.8 million increased by 4.25% per year for three years (Fiscal Year 2010 assumed payroll)

(4) Assumes annual payroll of \$330.8 million increased by 4% for FY08, 0% for FY09 and 4.25% FY10 (Fiscal Year 2010 assumed payroll)

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Replacement Ratios Dependent on Different Variables

Variables:

Age Multiplier

Defined Benefit Multiplier:	2.60%	55	0.00%
Defined Benefit Cap:	80%	56	0.00%
Final Average Compensation Years:	3	57	0.00%
SPSP Mandatory Employee Contribution Rate:	1.25%	58	0.00%
SPSP Mandatory Employer Contribution Rate:	1.25%	59	0.00%
SPSP Voluntary Employee Contribution Rate:	0.00%	60	2.00%
SPSP Voluntary Employer Contribution Rate:	0.00%	61	2.12%
Investment Return Rate on SPSP:	8.00%	62	2.24%
Inflation Factor:	3.00%	63	2.36%
Annuity Rate of Return (5%, 6%, 7% or 8%):	6.00%	64	2.48%
Age at Hire:	35	65	2.60%
Annual Compensation at Hire:	\$45,000		

Results:

Age 65 Replacement: 82.96%

Compensation at Age 60:	150,587.16
Final Average Compensation at Age 60:	143,861.84
Defined Benefit at Age 60:	71,930.92
Defined Benefit Replacement at Age 60:	47.77%
Defined Contribution Replacement at Age 60:	5.79%
Total Replacement at Age 60:	53.56%

Compensation at Age 62:	165,232.71
Final Average Compensation at Age 62:	157,853.31
Defined Benefit at Age 62:	95,469.68
Defined Benefit Replacement at Age 62:	57.78%
Defined Contribution Replacement at Age 62:	6.74%
Total Replacement at Age 62:	64.52%

Compensation at Age 65:	189,914.49
Final Average Compensation at Age 65:	181,432.79
Defined Benefit at Age 65:	141,517.58
Defined Benefit Replacement at Age 65:	74.52%
Defined Contribution Replacement at Age 65:	8.44%
Total Replacement at Age 65:	82.96%

City Savings Under Compromise Ballot Proposal
000531 Assuming Members 100% Participation in Saving for Retirement
Effective July 1, 2009 (in millions)

Savings

<u>Year</u>		<u>SPSP</u>		<u>SDCERS</u>		<u>Total</u>	
		<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>	<u>Annual</u>	<u>Cumulative</u>
1	FY 2010	\$ 0.6	\$ 0.6	\$ -	\$ -	\$ 0.6	\$ 0.6
2	FY 2011	\$ 1.2	\$ 1.8	\$ -	\$ -	\$ 1.2	\$ 1.8
3	FY 2012	\$ 1.8	\$ 3.6	\$ 0.3	\$ 0.3	\$ 2.1	\$ 3.9
4	FY 2013	\$ 2.5	\$ 6.1	\$ 0.6	\$ 0.9	\$ 3.1	\$ 7.0
5	FY 2014	\$ 3.2	\$ 9.3	\$ 0.9	\$ 1.8	\$ 4.1	\$ 11.1
6	FY 2015	\$ 4.0	\$ 13.3	\$ 1.3	\$ 3.1	\$ 5.3	\$ 16.4
7	FY 2016	\$ 4.8	\$ 18.1	\$ 1.6	\$ 4.7	\$ 6.4	\$ 22.8
8	FY 2017	\$ 5.6	\$ 23.7	\$ 2.0	\$ 6.7	\$ 7.6	\$ 30.4
9	FY 2018	\$ 6.5	\$ 30.2	\$ 2.4	\$ 9.1	\$ 8.9	\$ 39.3
10	FY 2019	\$ 7.5	\$ 37.7	\$ 2.9	\$ 12.0	\$ 10.4	\$ 49.7

Assumptions

Number of New Hires per Year	264
FY 2009 Average Starting Salary	\$ 45,000
Annual Inflation Rate	4.25%
Interest Rate	8.00%
New SPSP Mandatory	1.25%
New SPSP Voluntary	0.00%
SPSP Voluntary Participation	100.00%
SDCERS Normal Cost Rate	7.50%
Old SDCERS Normal Cost Rate	9.87%
Year Zero Merit and Longevity	4.50%
Year One Merit and Longevity	3.50%
Year Two Merit and Longevity	2.50%
Year Three Merit and Longevity	1.50%
Year Four Merit and Longevity	0.50%
Year Five and Later Merit and Longevity	0.50%
Year Zero Turnover	5.63%
Year One Turnover	5.53%
Year Two Turnover	4.33%
Year Three Turnover	4.33%
Year Four Turnover	4.24%
Year Five Turnover	3.06%
Year Six Turnover	1.87%
Year Seven Turnover	1.98%
Year Eight Turnover	2.14%
Year Nine Turnover	2.30%

July 2, 2008